CONTENTS

LETTER OF TRANSMITTAL xi

OVERVIEW

Year Sees Swift Response to New Challenges of Globalized Markets; Financial Support for Members Rises to Record Levels 3

THE GLOBAL ECONOMY

Main Developments in the World Economy 13
- Economic Activity and Employment 14
- Consumer and Commodity Prices 16
- Financial and Foreign Exchange Markets 18
- External Balances, Financing, and Debt 19

World Economic Outlook 22
- Global Situation 22
- Industrial Country Policies 23
- Developing Country Policies 26
- Policies in Economies in Transition 27

International Capital Markets 28
- Turbulence in Emerging Capital Markets 28
  - *Spillovers from the Mexican Crisis* 28
  - *Capital Flows to Developing Countries* 28
  - *Recovery of Some Emerging Markets* 29
- Major International Capital Markets 29
  - *Regulatory and Supervisory Issues* 30
  - *Problems in Japan's Financial Sector* 30

Fiscal Considerations in Policymaking 31
- Quasi-Fiscal Operations of Public Financial Institutions 31
- Aging Populations and the Fiscal Impact of Public Pension Plans 31
- Taxation and Unemployment 32

Present and Future Role of the SDR 34

THE FUND IN 1995/96

The Role of the Fund: Financing and Its Link to Surveillance 39
- Rationale for Fund Financing 39
- Future Need for Fund Resources 40

Fund Surveillance 41
- Review of Policies Under the Madrid Declaration 41
- The Fund's Statistical Policy and Provision of Data for Surveillance 43
- Other Issues in Surveillance 44
  - *Progress Toward Economic and Monetary Union* 44
  - *Capital Account Convertibility and Implications for Fund Policy* 45

Banking System Soundness and Macroeconomic Policy 46
Governance Issues 47

Data Dissemination Standards **48**
Establishment of the Special Standard 50
Electronic Bulletin Board 50
General Standard 51

Article IV Consultations **52**
Industrial Countries 52
United States 52
Japan 55
Germany 56
France 58
United Kingdom 59
Italy 61
Canada 62
Smaller Industrial Countries 64
Australia 65
Austria 66
Finland 67
Developing Countries 69
Argentina 71
Botswana 72
China 73
Colombia 75
Côte d'Ivoire 76
India 77
Indonesia 79
Israel 80
Korea 81
Mexico 82
Mozambique 84
Nigeria 85
Pakistan 86
Peru 87
Philippines 89
Senegal 90
Tunisia 91
Economies in Transition 93
Georgia 94
Mongolia 95
Poland 96
Romania 98
Russia 99
Slovak Republic 101
Ukraine 102

Fund Support of Member Countries **105**
Member Countries' Use of Fund Facilities 105
Algeria 105
Argentina 105
Armenia 107
Azerbaijan 107

Belarus 107
Benin 108
Bolivia 108
Bosnia and Herzegovina 108
Burkina Faso 109
Cambodia 109
Cameroon 109
Chad 110
Costa Rica 110
Côte d'Ivoire 110
Djibouti 111
El Salvador 111
Gabon 111
Georgia 112
Ghana 112
Guinea 113
Guyana 113
Hungary 113
Jordan 114
Kazakstan 114
Kenya 114
Kyrgyz Republic 114
Lesotho 115
Former Yugoslav Republic of Macedonia 115
Malawi 115
Mali 116
Mauritania 116
Pakistan 116
Panama 117
Papua New Guinea 117
Romania 117
Russia 117
Rwanda 118
Senegal 118
Sierra Leone 118
Togo 119
Uganda 119
Uruguay 119
Uzbekistan 120
Vietnam 120
Yemen 120
Zambia 121
Analytical Issues in Fund Support 121
Response of Investment and Growth to Adjustment Policies and Composition of Fiscal Adjustment and Growth 121
Bilateral and Multilateral Aid Flows and Fund-Supported Programs 123
Adapting Fund Facilities 123
Emergency Financing Mechanism 123
Fund Policy with Regard to Currency Stabilization Funds 124
Fund Involvement in Post-Conflict Countries 124
Enhanced Structural Adjustment Facility 126

Debt Situation and the Role of the Fund 128
Official Flows to Developing Countries 128
Problems of Heavily Indebted Poor Countries 128

Private Market Financing for Developing Countries 129
International Debt Adjustment 130

Fund Financial Operations and Policies 131
Membership 131
Quotas 131
Fund's Liquidity, Access Policy, and Borrowing 132
Members' Use of Fund Resources and Credit Outstanding 134
Stand-By and Extended Arrangements 135
Special Facilities 136
SAF and ESAF 136
Fund Income, Charges, and Burden Sharing 138
Overdue Financial Obligations 140
Progress Under the Strengthened Cooperative Strategy 141
Prevention 141
Intensified Collaboration and the Rights Approach 141
Remedial Measures 142
SDR Transactions and Operations 143
SDR Valuation and Interest Rate Basket 143
SDR Transfers 143
Pattern of SDR Holdings 146

Technical Assistance and Training 147
IMF Institute 147
Fiscal Affairs Department 149
Legal Department 150
Monetary and Exchange Affairs Department 150
Statistics Department 151
Treasurer's Department 152
Bureau of Computing Services 153

APPENDICES

I. International Reserves 161
II. Financial Operations and Transactions of the Fund 167
III. Relations with Other International Organizations 191
IV. External Relations 193
V. Principal Policy Decisions of the Executive Board 199
VI. Press Communiqués of the Interim Committee and the Development Committee 202
VII. Executive Directors and Voting Power on April 30, 1996 209
VIII. Changes in Membership of Executive Board 213
IX. Administrative and Capital Budgets, Staffing, and Organization 217
X. Financial Statements 225

BOXES

Board of Governors, Executive Board, Interim Committee, and Development Committee x
1. Fiscal Problems and Policies 24
2. SDR Seminar Addresses Several Issues 35
3. Initiatives to Strengthen Fund Surveillance 42
4. Initiatives in Openness 43
5. Fund Data Standards at a Glance 48
6. Fund Facilities and Policies 106

7. Guidelines on Performance Criteria with Respect to Foreign Borrowing 121
8. The Emergency Financing Mechanism and Supplementary Borrowing 124
9. Guidelines for Fund Support for Currency Stabilization Funds 125
10. Operational Budget 133
11. The Fund's Holdings of Gold 139
12. Designation Plan 145
13. The Evaluation Function in the Fund 219
14. Departments of the Fund and Their Major Responsibilities 222

TABLES

1. Overview of the World Economy 14
2. Selected Economies: Current Account Positions 20
3. The Special Data Dissemination Standard: Coverage, Periodicity, and Timeliness 49
4. Article IV Consultations Concluded in Financial Year 1996 53
5. United States: Selected Economic Indicators 54
6. Japan: Selected Economic Indicators 55
7. Germany: Selected Economic Indicators 57
8. France: Selected Economic Indicators 58
9. United Kingdom: Selected Economic Indicators 60
10. Italy: Selected Economic Indicators 61
11. Canada: Selected Economic Indicators 63
12. Australia: Selected Economic Indicators 65
13. Austria: Selected Economic Indicators 67
14. Finland: Selected Economic Indicators 68
15. Argentina: Selected Economic Indicators 71
16. Botswana: Selected Economic Indicators 72
17. China: Selected Economic Indicators 74
18. Colombia: Selected Economic Indicators 75
19. Côte d'Ivoire: Selected Economic Indicators 76
20. India: Selected Economic Indicators 78
21. Indonesia: Selected Economic Indicators 79
22. Israel: Selected Economic Indicators 80
23. Korea: Selected Economic Indicators 82
24. Mexico: Selected Economic Indicators 83
25. Mozambique: Selected Economic Indicators 84
26. Nigeria: Selected Economic Indicators 86
27. Pakistan: Selected Economic Indicators 87
28. Peru: Selected Economic Indicators 88
29. Philippines: Selected Economic Indicators 89
30. Senegal: Selected Economic Indicators 90
31. Tunisia: Selected Economic Indicators 92
32. Georgia: Selected Economic Indicators 94
33. Mongolia: Selected Economic Indicators 96
34. Poland: Selected Economic Indicators 97
35. Romania: Selected Economic Indicators 98
36. Russia: Selected Economic Indicators 100
37. Slovak Republic: Selected Economic Indicators 101
38. Ukraine: Selected Economic Indicators 103
39. Selected Financial Indicators 135
40. Arrears to the Fund of Countries with Obligations Overdue by Six Months or More 140

41. Arrears to the Fund of Countries with Obligations Overdue by Six Months or More, by Type and Duration 141
42. Change in SDR Valuation Basket 143
43. Transfers of SDRs 144
44. Technical Assistance Delivery 149

CHARTS

1. World Indicators 13
2. Selected Industrial Countries: Real GDP Growth 15
3. Developing Countries: Real GDP Growth 16
4. Selected Countries More Advanced in Transition: Inflation 17
5. Selected Countries Less Advanced in Transition: Inflation 18
6. Developing Countries and Countries in Transition: External Debt and Debt Service 21
7. Fund's Liquidity Ratio, 1982–96 134
8. General Resources Purchases and Repurchases, Financial Years Ended April 30, 1982–96 136
9. Total Fund Credit Outstanding to Members (Including Trust Fund, SAF, and ESAF) 137
10. Composition of Technical Assistance 148
11. Cost of Major Activities 219
12. International Monetary Fund: Chart of Organization 220
13. Financial Year 1996 Capital Budget and Five-Year Plan 221

GLOSSARY OF ABBREVIATIONS ..... Inside back cover